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August 8, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

RE: In the Matter of Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996
CC Docket No. 96-128 Ex-Parte

Dear Mr. Caton:

On Thursday, August 8, 1996, Diane Giacalone, Michael Kellogg, Chuck Jackson, Rob Wentland, Marie Breslin, David Cockcroft and Ben Almond, all representing the RBOC Payphone Coalition met with Michael Carowitz, Rose Crellin, Glenn Reynolds and Tom Zagorsky, all of the Enforcement Division, Common Carrier Bureau. The purpose of the meeting was to respond to several questions raised by the Commission staff during the Coalition's workshop conducted on July 25, 1996. The attached material was used for discussion purposes.

Please associate this notification and the accompanying material with the referenced docket proceeding.

If there are questions concerning this matter, please contact the undersigned.

Sincerely,

Ben G. Almond

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Executive Director-Federal Regulatory

cc: Michael Carowitz
Rose Crellin
Glenn Reynolds
Tom Zagorsky

0+1

PER-CALL COMPENSATION

Key Principle: To regulate price is to regulate supply

- In setting per-call rate, FCC is determining the number of payphones that will be deployed
- Higher rate will lead to greater deployment; lower rate will lead to reduced deployment
- Competitive industry will not retain below-cost phones:
    - PSPs are not regulated utilities
    - Cross-subsidy is forbidden
    - Concerns with claims of predatory pricing

THREE APPROACHES TO PER-CALL COMPENSATION

- Cost-based approach:

  Determine anticipated costs of payphone unit under new legal regime

- "Revenue-neutral" approach:

  Replace lost subsidies (access charge elements) and compensate for increased costs (business lines, commissions)

- Market-based approach:

  Let market forces work wherever they can; where market cannot work, look for market-based proxies

PROBLEMS WITH COST-BASED APPROACH

- Cost-based approach does not equal "fair compensation"
- Cost-based approach either ignores widely different actual costs (among PSPs and in different states) or creates administrative nightmare
- Cost-based approach fails to support payphones with below-average usage or above-average costs
- Cost-based approach will result in regulatory death spiral

PROBLEMS WITH REVENUE-NEUTRAL APPROACH

- Revenue-neutral approach does not equal "fair compensation"
- Revenue-neutral approach assumes that LEC PSPs are being fairly compensated today, but many states do not allow rates that achieve full cost recovery
- Revenue-neutral approach based on one segment of the industry (RBOCs) will not be valid for industry as a whole

REVENUE-NEUTRAL CALCULATION

	RBOC Coalition Calls	Range of Per-Call Compensation					
		$0.35	$0.45	[illegible]	$0.65	[illegible]	$0.85
<u>Additional Revenue</u>							
Local SP	3,960,000,000						
All Other	2,040,000,000	$714,000,000	$918,000,000	$1,087,956,098	$1,326,000,000	$1,530,000,000	$1,734,000,000
TOTAL	6,000,000,000						
<u>Additional Expenses / Lost Revenue</u>							
Bsuiness Line Costs*		(683,760,000)	(683,760,000)	(683,760,000)	(683,760,000)	(683,760,000)	(683,760,000)
Additional Commissions**		(128,520,000)	(165,240,000)	(195,832,098)	(238,680,000)	(275,400,000)	(312,120,000)
CCL Loss***		(208,364,000)	(208,364,000)	(208,364,000)	(208,364,000)	(208,364,000)	(208,364,000)
Net Increase (Net Decrease)		($306,644,000)	($139,364,000)	$0	$195,196,000	$362,476,000	$529,756,000

* Estimated at $660 for 1,036,000 RBOC Coalition stations. Includes local usage, subscriber line charges, coin access line charges and estimates for call tracking expenses.

**Estimated at 18% of Per-Call Compensation.

*** One Coalition member did not provide data. We estimated the missing member's lost CCL subsidy at $35 million.

MARKET PRICES

- Market prices benefit consumers
  - Better services, lower costs, and higher deployment
- This is the approach the FCC chose in NPRM
  - Market is working for IPSPs on 0+ and 1+ calls
  - Market should be allowed to work wherever it can
- Market prices are only way for the Commission to move towards deregulating the payphone industry
  - Alternative is old-fashioned regulation in which FCC tries to better the market
  - This is a market in which the FCC can declare victory and move on

MARKET-BASED DEFAULT RATE

- TOCSIA prevents negotiations on dial around and 1-800-subscriber calls because PSPs have no leverage; same for 1+ and 0+ calls from RBOC phones under long-term contracts

- Commission should establish a default rate for 1+, 0+, dial around and 1-800-subscriber calls:
    - Default rate restores some leverage; if set high enough will allow negotiations to reach market price
    - Default rate will not lead to higher prices for consumers ("pass through"); based on the rates already negotiated by independent PSPs
    - Default rate will let market work wherever it can (e.g., Tariff 12)

0+/1+ CALLS SUBJECT TO LONG-TERM CONTRACTS

PROBLEM: IXC already pays commission to location provider pursuant to long-term contract

276(b)(3) says new Act does not affect existing contracts

But: 276(b)(1)(A) requires that RBOC PSPs be fairly compensated for every completed call

SOLUTION: Reduce default rate by amount of commission paid to location provider under long-term contract, but to no more than 50% of default rate

- IXC payment to RBOC will not "affect" (i.e., disrupt) contract with location provider

WHAT'S THE DEFAULT RATE?

Per-Call Commission Received by Largest APCC Member	$0.90
Average Per-Call Compensation Assuming Average AT&T Tariffs	***$0.81***
Average Non-Coin Per-Call Compensation Received by Three Largest IPPs	$0.84
Updated and Revised 0- Transfer Charge Study	$0.46-$0.54

RBOC PARTICIPATION IN SELECTION OF INTERLATA CARRIER

- RBOC participation is critical to use of market-based prices on 0+ and 1+ calls
- RBOC participation in selection of interLATA carrier is flipside to ability of all PSPs to participate in selection of intraLATA carrier
- RBOC participation will create "level playing field" for all PSPs
  - One-stop shopping
  - Aggregate toll for small businesses
- Location providers/consumers will benefit
  - Reduction in "carrier slamming"
  - Consumers will have rate predictability
  - Competitive impact on OSPs will improve rates
- RBOCs unable to discriminate against OSPs
  - Payphone market is competitive
  - Many OSPs are large competitors with strong bargaining power